Names in the News: KR & QCOM

The Kroger Co. (KR) & QUALCOMM Incorporated (QCOM)

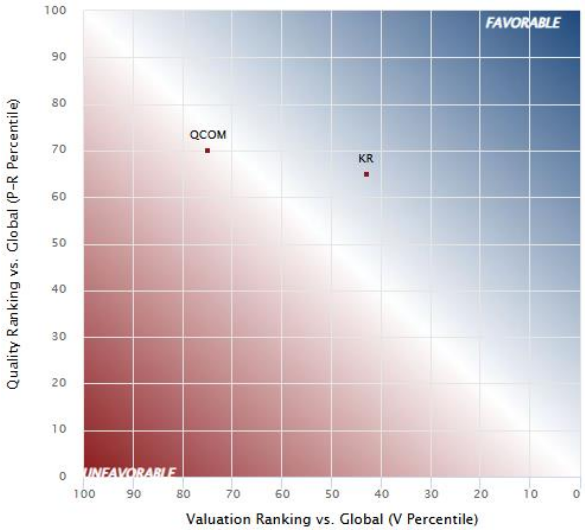
We cover two high quality U.S. names this week, **KR** and **QCOM**. **KR** was upgraded to Overweight in the PRVit framework yesterday as the Valuation turned more favorable. The second company is **QUALCOMM Incorporated** (**QCOM**), which we highlight at a time when U.S. tech companies securing AI deals have caught investor attention following President Trump's Gulf visit. **The Kroger Co.** (**KR**, rated '**Overweight**') has seen some deterioration in EVA Margin over the last four quarters, but it remains near pre-COVID highs at 0.9%. The company has managed input costs well, with EBITDAR Margin trending at 15-year highs of 6.8% through FY24. EVA Momentum (growth) has turned negative from the July 2024 quarter, deteriorating further through the subsequent quarters on negative top-line growth and deteriorating asset efficiency. Embedded expectations for growth have recently turned positive, with Future Growth Reliance (FGR) trading at a premium after 7 years. The management does not expect "a massive impact" from tariffs, with the market already starting to price in recovery expectations at a time when EVA Mo is trending at historical lows (excluding 2021).

We also look at **QUALCOMM Incorporated** (**QCOM**, rated '**Overweight**'), which has seen renewed investor interest after a better-than-expected-earnings print earlier this month and more recently as U.S. tech companies securing AI deals catch investor attention. Incremental EVA growth turned positive in Q3 last year and has improved further in recent quarters, as measured by EVA Momentum, led by strong top-line growth and improving asset efficiency. Embedded expectations for growth have moderated, with Future Growth Reliance (FGR) down to 33% from 10-year highs of around 52% in Q2 2024. We maintain a positive view on the firm, given its strong Quality (P-R) at a time when absolute valuation levels have come off of upper bounds of the historic range.

Figure 1: EVA Summary

Name	Ticker	Country	Mkt Cap ($mm)	EVA Margin (%)	EVA Momentum (%)	PRVit Score	Quality (P-R)	Valuation Score (V)	Return YTD (%)	ESG Perf Score
KROGER CO	KR	U.S.	44,847	0.9%	-0.5%	65	65	43	10.9%	44.47
QUALCOMM INC	QCOM	U.S.	166,171	17.1%	3.7%	71	70	75	-0.9%	59.57

Figure 2: HEAT Map



PRVit and Sub-Factors

PRVit compares a company's operational Quality, based on EVA metrics, to the company's market-based Valuation. When Quality exceeds Valuation, the overall PRVit ranking will be higher.

Scoring
All factors scored from 0 to 100.
PRVit: 100 is most favorable.
Quality (P-R): 100 is highest Quality.
Profitability (P): 100 is most Profitable.
Risk (R): 0 is lowest Risk.
Valuation: 0 is cheapest.

Heat Map: The Heat Map shows the visual trade-off between Quality and Valuation: Companies in the favorable (blue) area offer higher quality and/or cheaper valuation than those in the unfavorable (red) area.

ISS ESG Performance: Page 4 includes the ISS ESG Performance ratings of both firms, coupled with their industry-specific rankings.

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About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework. Our experienced team of global analysts offers both fundamental and quantitative company analysis on our +29,000 stock universe.

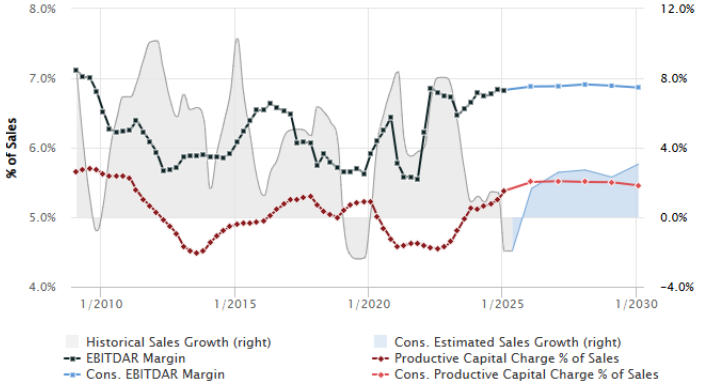
Visit our website www.EVAexpress.com

The Kroger Co. (KR)

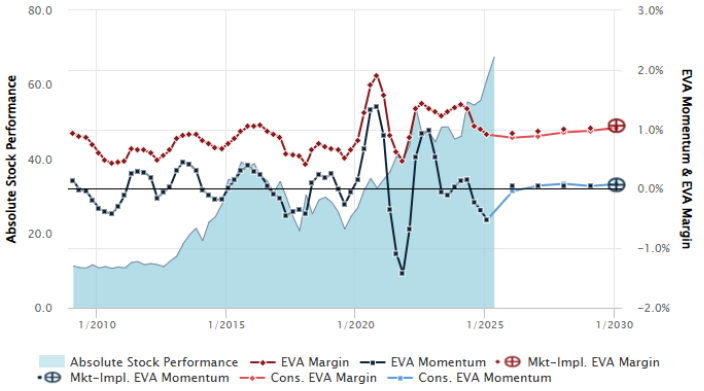
PRVit Recommendation: 'Overweight' – Favorable Quality-Valuation Tradeoff

- Sales Growth (TFQ) has turned negative to -1.9% as of Q4 FY2024, impacted by decreased Supermarket fuel sales, which were partially offset by sales to retail customers (excluding fuel).
- EBITDAR Margin has trended stable for the last four quarters, around 15-year highs, at 6.8% as of the latest print.
- The Productive Capital Charge (higher is less favorable) has trended up by 30bps within the last four quarters, to the highest level in 10 years, currently at 5.4% of sales, due to negative top-line growth and an increase in new investment.
- EVA Margin has trended down by 50bps through FY2024, currently 20bps away from pre-COVID highs at 0.9%.
- EVA Momentum (growth) has turned further negative due to negative sales growth and a deterioration in asset efficiency.
- Embedded expectations for growth (Future Value Added, FVA) turned positive in January after seven years. Future Growth Reliance was trading at a premium of 9% as of 13th May.
- The management does not expect "a massive impact" from tariffs, with the market already starting to price in recovery expectations at a time when EVA Momentum is trending at historical lows (excluding 2021).

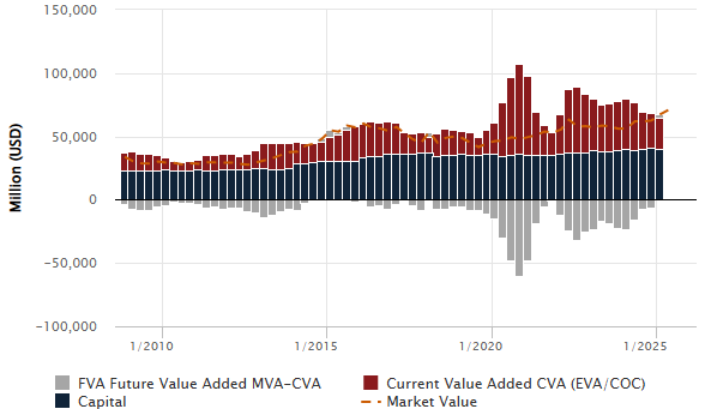
EVA Drivers: Sales, Margins, and Turns



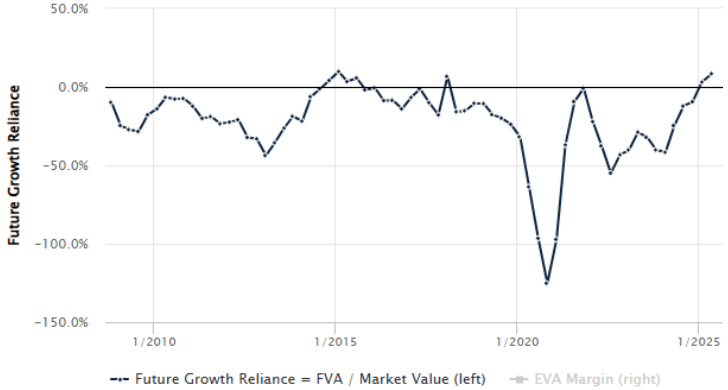
EVA Fundamentals: Profitability Level and Growth



Enterprise Value Components: Capital, CVA, and FVA



Future Growth Reliance (FGR): Market Expectations

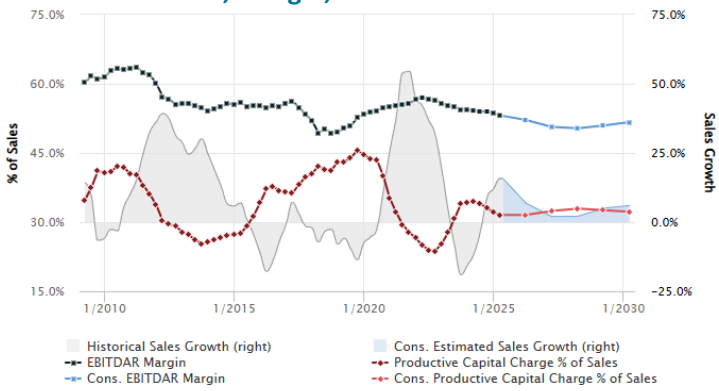


QUALCOMM Incorporated (QCOM)

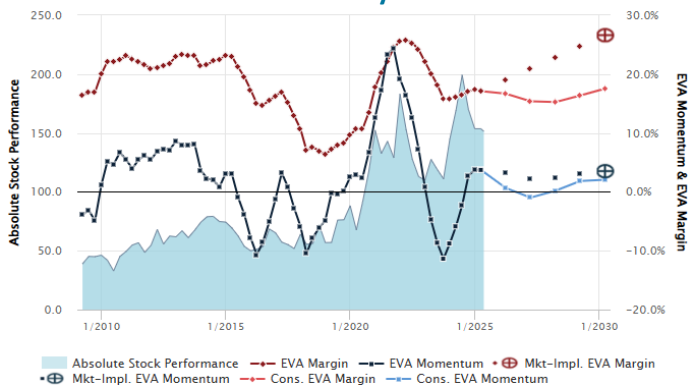
PRVit Recommendation: 'Overweight' – Strong Quality at Expensive Valuation Levels

- Sales Growth (TFQ) has accelerated to 15.8% as of the quarter ending March.
- EBITDAR Margin has continued its downward trajectory since early 2022, contracting by 120bps over the last five quarters on increasing adjusted COGS as a % of Sales.
- The Productive Capital Charge (lower is more favorable) has cooled off by 300bps through the last four quarters on moderating PP&E and R&D charges.
- EVA Margin expanded by 160bps in 2024 before deteriorating 30bps in Q1 2025 to 17.1%.
- EVA Momentum (growth) inflected positive in Q3 2024 and moved further up in the subsequent two quarters, led by strong top-line growth and improving asset efficiency.
- Embedded expectations for growth (FVA) have come significantly off 2024 highs but remain bullish relative to history. Future Growth Reliance (FGR) is currently trading at 32% as of 13th May, down from the 10-year highs of around 53% in June last year.
- We maintain a positive view on the firm, given its strong Quality (P-R) at a time when absolute valuation levels have come off of upper bounds of the historic range.

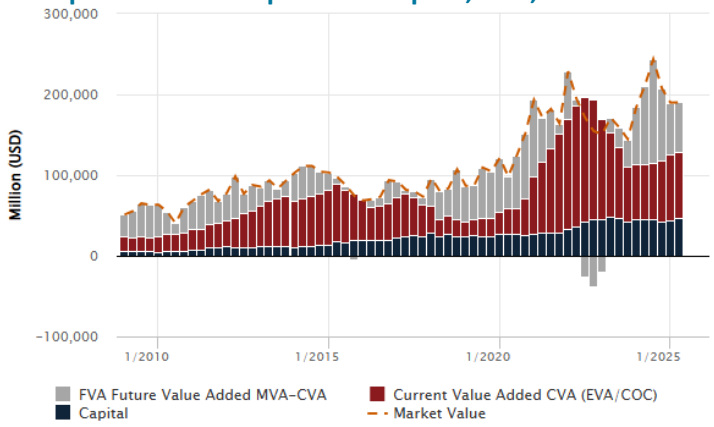
EVA Drivers: Sales, Margin, and Turns



EVA Fundamentals: Profitability Level and Growth



Enterprise Value Components: Capital, CVA, and FVA



Future Growth Reliance (FGR): Market Expectations



ISS ESG Performance analysis of both names can be found below.

ISS ESG Performance for The Kroger Co. (KR)

ESG RATING

C

PERFORMANCE SCORE

44.5

PRIME STATUS

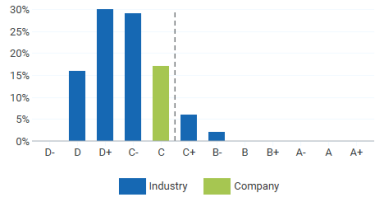
Not Prime

PRIME THRESHOLD

C+

DISTRIBUTION OF RATINGS

326 companies in the industry



ISS ESG Performance for QUALCOMM Incorporated (QCOM)

ESG RATING

B-

PERFORMANCE SCORE

59.6

PRIME STATUS

Prime

PRIME THRESHOLD

C+

DISTRIBUTION OF RATINGS

119 companies in the industry



ISS ESG Definitions

ESG Performance Score: This factor provides a numerical score from 0 to 100. Prime Status is based on the ESG rating and a sector-specific Prime threshold. The ESG Rating and Performance Scores, however, are comparable over all rated entities. All rated entities with values greater than or equal to 50 are Prime, companies with values less than 50 are not Prime.

ESG Rating Decile Rank: This factor indicates decile rank relative to industry group (companies) and covered entities (countries) based on assessment of Environmental (E), Social (S), and Governance (G) performance. A decile rank of 1 indicates a high relative performance, while a 10 indicates a lower relative ESG performance.

About ISS EVA

We are an independent equity research provider offering investing insights through the use of our proprietary Economic Value Added (EVA) framework.
EVA converts accounting profits into economic profits and charges businesses for the use of Invested Capital. EVA is superior to traditional measures of profit because it is comparable across companies, industries, and countries, links to a consistent, transparent valuation framework, and provides a unique, unbiased view of Quality, Value, and Growth.

Our experienced team of analysts offers both fundamental and quantitative company analysis through written research, bespoke research, a stock selection model, an online analytical tool offering +29,000 companies as viewed through the EVA framework, custom screening, and portfolio analysis.

Key EVA Concepts

The value of a firm = Capital + PV of EVA

If EVA is increasing then the intrinsic value of the firm is too, suggesting that market value should follow (and vice versa).

EVA = NOPAT - Capital Charge

EVA is profit after all costs, including the cost of giving shareholders a decent return.

EVA Margin = EVA / Sales

A true economic profit margin covering income and asset efficiency. Our EVA Income Statement examines EVA's line item drivers and offers key insights into business profitability.

EVA Momentum = Δ EVA / Sales

An incremental EVA growth rate indicator and key valuation signal and screening measure. The more positive the Momentum, the greater the growth in EVA, and upward pressure on shareholder returns. Inflections in EVA Momentum are an early and more reliable indicator of stock price inflections.

EVA Shock = Δ EVA Momentum

Changes in EVA Momentum is a powerful signal within our framework, with significant relationship with stock price performance.

Market Implied Momentum (MIM)

The annual EVA improvement required for 10 years to justify the prevailing market enterprise value, expressed as a percent of sales; represents a market implied, long-range EVA margin improvement target.

Future Growth Reliance (FGR) = (Market implied value of future EVA growth) / EV

Measures the % of a company's total enterprise value represented by expectations for future growth in EVA. FGR is key to understanding embedded expectations today and versus history. A low FGR versus history coupled with improving EVA trends indicates that the market is not pricing in the improving business model.

Additional Resources

evaExpress.com (link): Our online offering provides a comprehensive suite of fundamental and quantitative tools utilizing the EVA framework
EVA for Investors (link): A full introduction to the key EVA concepts and metrics

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